FINALTERM EXAMINATION
Spring 2009
ACC311- Fundamentals of Auditing (Session - 1)
Marks: 81

Question No: 1 (Marks: 1) - Please choose one
Which one of the following is an objective of the internal audit?

To report on financial statements
To check accounting system and internal control are operating efficiently
To determine the accuracy of financial statement values and disclosures
To establish a control system in the company

Question No: 2 (Marks: 1) - Please choose one
Which one of the following statements is NOT correct in respect of the internal auditor?
The scope of audit performed by internal auditors is primarily in respect of financial report audits
An internal auditor does not require a license to practice

Internal auditors are usually employed by companies and government units
Primary responsibility of the internal auditor is to the board of directors

Question No: 3 (Marks: 1) - Please choose one
After how many days the Securities and Exchange Commission may appoint the auditors, if the Directors of a company could not appoint the auditors to fill casual vacancy? (Companies Ordinance, 1984)
30 days
60 days
80 days
120 days

Question No: 4 (Marks: 1) - Please choose one
Suppose that during audit of a company, an auditor accepted the schedule of bad debts furnished by the client, though it was apparent that debts were not recoverable. The auditor shall be held liable for which one of the following liabilities?
Liability for negligence
Liability for misfeasance
Criminal liability
Personal liability

Question No: 5 (Marks: 1) - Please choose one
The books of accounts of a company should be kept at which one of the following offices?(Companies Ordinance, 1984)
Registered office of the company
Accounts office of the company
Record office of the company

Registrar office

Question No: 6 (Marks: 1) - Please choose one
Which of the following is one of the most fundamental and effective internal controls?
Increased use of computers for recording accounting transactions
Increased reliance on internal auditors to monitor accounting systems
Segregation of incompatible duties across several people
Having internal auditors report only to the Board of Directors

Question No: 7 (Marks: 1) - Please choose one
Which of the following is NOT a major component of an internal control system?
Risk assessment Staffing

Control procedures/activities
Information and communication system

Question No: 8 (Marks: 1) - Please choose one
An audit firm audited a Leather Manufacturing company and presented its report addressed to the management. They found significant material misstatements in the company s internal controls system. They strongly recommended that there should be sufficient controls in existence to ensure management can effectively control the business operations. In your opinion, auditors are emphasizing on which one of the following categories of SOAP MAPS?
Authorization
Management and Monitoring
Arithmetic and Accounting
Segregation of duties

Question No: 9 (Marks: 1) - Please choose one
Which of the following statements best describes the purpose of an internal control questionnaire (ICQ)?
An internal control questionnaire is a series of questions regarding accounting and control

policies and procedures that the auditor considers necessary to prevent all misstatements in the financial report
An internal control questionnaire is a series of questions regarding accounting and control policies and procedures that the auditor considers necessary to prevent material misstatements in the financial report
An internal control questionnaire is a series of questions regarding accounting and control policies and procedures that the auditor considers necessary to detect material misstatements in the financial report
An internal control questionnaire is a series of questions prepared by the entity about the entity's accounting and control policies and procedures for which the entity seeks guidance on from the auditor in order to detect material misstatements in the financial report
Question No: 10 (Marks: 1) - Please choose one
A Beverages company is being audited by an audit firm. Audit procedures are being undertaken in all of its departments. During this, the audit team has to spend more time on physical examination of the company assets to get reliable audit evidence. In your opinion, auditors are considering which type of audit inquiry in this case?
Recalculations
Inspection of tangible assets
Analytical procedures
Confirmations
Existence of any immaterial mistake in the statements
Existence of any fraud or error in the statements
Company s growth trend in the future in figures
Market value of the company s stock
Question No: 12 (Marks: 1) - Please choose one
Which one of the following may NOT be a type of control of the purchase cycle of an entity?
Receipt of goods
Invoicing and returns
Invoicing and credit notes

Purchase ledger and suppliers
Question No: 13 (Marks: 1) - Please choose one
While testing the purchase system of an entity, which one of the following control tests may be applied to the Credit Notes by the auditors?
Evidence of matching credit notes to goods returned notes
Evidence of approval of credit notes
Evidence of a sequence check
Proof of issuance date
Question No: 14 (Marks: 1) - Please choose one
During the audit work of testing the purchase system of an entity, which one of the following control tests may be applied to the Payables Ledger by the auditors?
Evidence of authorization of adjustments to payables ledger

Evidence of review of reconciliation of purchase ledger listing
Evidence of authorization of adjustments to payable ledger control account
Evidence of authorization of adjustments to purchase ledger

Question No: 15 (Marks: 1) - Please choose one

Which one of the following possible misstatements related to payroll does not involve the audit objective of Validity?

Payments to fictitious employees
Payments to terminated employees
Payments to valid employees who have not worked
Payments to valid employees at a rate in excess of the authorized amount

Question No: 16 (Marks: 1) - Please choose one

In order to ensure effective control, how often a full inventory count should be held when perpetual inventory records are not kept adequately?

On a daily basis
At least once a year
At least monthly
At least weekly

Question No: 17 (Marks: 1) - Please choose one

An oil exploring company employs 1500 personal in its international market. All of its personnel are paid on monthly basis. The company should compensate them in which form of payment?

Salary
Cheque
Wages
None of the given option

Question No: 18 (Marks: 1) - Please choose one

For the purpose of keeping effective control in the cash system, who should have no access to the
cash or the preparation of the paying-in slip?

Sales ledger personnel
Teller/cashier
Cash officers
Operations manager

Question No: 19 (Marks: 1) - Please choose one

When should the petty cash book entries be made?

At the day end
Next day
Promptly
Monthly

Question No: 20 (Marks: 1) - Please choose one

How often the physical inspection of non current assets should be carried out?

Rarely

Periodically

Never

Daily

Question No: 21 (Marks: 1) - Please choose one

In which one of the following ways auditors can choice the verification techniques in a given set of circumstances?

It depends upon the available audit evidence to the auditor

It depends upon the nature of business operations of the entity

It depends upon the audit procedures planned by the auditor

It depends upon the judgmental skills of the auditor

Question No: 22 (Marks: 1) - Please choose one

Which one of the following may NOT ensure that the movement in share capital of a company isproperly authorized and correctly shown and described in accordance with the CompaniesOrdinance, 1984?

Check that directors were authorized to allot shares

Agree authorized capital with memorandum of association

Consider special rules for allotments of public company shares

Test payments with supporting evidence and trace entries in register

Question No: 23 (Marks: 1) - Please choose one

Which one of the following testing objectives refers to the management assertion Occurrence in obtaining audit evidence?

Assets shown include all rights under the control of the enterprise

Transactions and events that have been recorded have occurred and pertain to the entity

The amounts at which assets and liabilities are stated is correct

Assets and liabilities included on the balance sheet actually exist

Question No: 24 (Marks: 1) - Please choose one

Which one of the following certain expense items may be verified in order to keep control of stock-in-trade and stores & spares?

Interest on short term loan

Accumulated depreciation on assets

Director s fees
Wages and salaries
Question No: 25 (Marks: 1) - Please choose one

Which one of the following is NOT an advantage of using statistical sampling?
It aids in the design of an efficient sample
It allows the auditor to measure the sufficiency of the evidential matter obtained
It allows the auditor to greatly reduce substantive testing
It provides means for mathematically measuring the degree of sampling risk

Question No: 26 (Marks: 1) - Please choose one
Which one of the following is an underlying feature of random-based selection of items?
Each stratum of the accounting population be given equal representation in the sample
All items in the accounting population be randomly ordered.
Every item in the population should have an opportunity to be selected
Every item must be systematically selected using replacement

Question No: 27 (Marks: 1) - Please choose one
Which one of the following matters is generally included in an auditor's engagement letter?
Management's responsibility for the entity's compliance with laws and regulations
The factors to be considered in setting preliminary judgments about materiality
Management's vicarious liability for illegal acts committed by its employees
The auditor's responsibility to search for significant internal control deficiencies

Question No: 28 (Marks: 1) - Please choose one
What should be the next step of an auditor after establishing the overall audit strategy of anentity?

To develop an audit plan
To define the scope of audit
To determine the focus of engagement team efforts
To determine the objectives of audit

Question No: 29 (Marks: 1) - Please choose one
The establishment of the overall audit strategy involves the following EXCEPT:
To determine the characteristics of the engagement

To ascertain the reporting objectives of the engagement
To consider the important factors i.e. materiality levels, higher risks of material misstatement etc.
To guide the development of detailed business activities to occur in future

Question No: 30 (Marks: 1) - Please choose one
Which one of the following mainly affects the auditor s opinion?
Agreement on accounting policies
Limitation on the scope of the auditor s work
Dispute among the members of the company
Future prospects of the company s growth

Question No: 31 (Marks: 1) - Please choose one
Which one of the following matters does NOT affect Auditor s Opinion?
When there is a limitation on the scope of the auditor s work
When there is a disagreement with management regarding the accounting policies selected
When there is a disagreement with management regarding the method of applying accounting policies
When an auditor modify the auditor s report by adding a paragraph to highlight a material matter

Question No: 32 (Marks: 1) - Please choose one
Tracing selected shipments to the sales journal to be sure that each one is included is a test of which of the following?
Accuracy
Classification
Completeness
Existence

Question No: 33 (Marks: 1) - Please choose one
Which one of the following best describes the term Input VAT?

Input VAT is charged on a firm when it makes its purchases
Input VAT is charged on a firm when it makes its investments
Input VAT is charged on a firm when it produces highly quality products
Input VAT is charged on a firm when it exports the products

Question No: 34 (Marks: 1) - Please choose one

The duties of the wages staff should preferably be rotated during the year when the salary payment is made by which of the following systems?

By cheque

In cash

By demand draft

Direct transfer to employees bank account

Question No: 35 (Marks: 1) - Please choose one

Which of the following are the three audit objectives that are most important for cash, and that receive the greatest attention during the audit?

Existence, accuracy, and completeness

Existence, cutoff, and presentation

Accuracy, cutoff, and presentation & disclosure

Completeness, realizable value, and cutoff

Question No: 36 (Marks: 1) - Please choose one

Which one of the following is most likely to indicate fraud?

Several overpayments are made for goods received from a supplier

The year end cash balance does not include cash in transit to the company at year-end

A check received after year end was inadvertently recorded as if received before year-end

A documented loan is sanctioned to an officer of the company

Question No: 37 (Marks: 1) - Please choose one

When an auditor increases the assessed level of control risk because certain control activities were determined to be ineffective, which of the following would most likely be increased by the auditor?

Extent of tests of controls

Level of detection risk

Extent of tests of details

Level of inherent risk

Question No: 38 (Marks: 1) - Please choose one

Which one of the following statements is TRUE regarding control procedures?

They are not required if the control environment is strong

They should generally be all manual

They should generally be all automated

They can be either manual or automated

Question No: 39 (Marks: 1) - Please choose one
Which one of the following statements does not apply to the Institute of Chartered Accountants of Pakistan (ICAP) in Pakistan?

An autonomous body incorporated under the Chartered Accountants Ordinance 1961
Regulatory body that formulates auditing standards in Pakistan
Its affairs are run by a council which is elected by its member (Chartered Accountants).
ICAP is a member of the International Federation of Accountants (IFAC)

Question No: 40 (Marks: 1) - Please choose one
Which one of the following statements indicates a primary difference between an operational audit and a compliance audit?
Operational audit focuses on business efficiencies and effectiveness, while compliance audit focuses on whether laws and other requirements are being followed
Operational audit focuses on reliability of the financial statements, while compliance audit focuses on whether laws and other requirements are being followed

Operational audit focuses on business growth prospects, while a compliance audit focuses on reliability of the financial statements
Operational audit focuses on business size and potential to grow, while compliance audit focuses on reliability of accounting records

Question No: 41 (Marks: 1) - Please choose one
Which one of the following primary assertions is satisfied when an auditor ensures that there is no false transaction recorded and all recorded transactions have actually taken place?
Occurrence
Completeness
Existence
Rights and obligations

Question No: 42 (Marks: 1) - Please choose one
Following are the points considered during the verification of bank balances EXCEPT:
Obtain direct bank confirmation
Obtain direct bank confirmation
Investigate about outstanding stale cheques
Investigate any significant reconciling items of an unusual nature
Ensure that the creditors have been paid for their loan amount

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Question No: 43 (Marks: 3)

Enlist the typical control procedures at key stages of the sales cycle.
Solution:
Obtain direct bank confirmation
Obtain direct bank confirmation
Investigate about outstanding stale cheques
Investigate any significant reconciling items of an unusual nature
Ensure that the creditors have been paid for their loan amount
Question No: 44 (Marks: 3)
What steps an auditor should take in order to ensure that the reserves are properly classified anddescribed in the accounts in accordance with the Companies Ordinance, 1984?

Question No: 45 (Marks: 3)
Throughout the 1960s and 70s, the largest accounting firms devoted extensive resources to the development and implementation of statistical sampling procedures. Enlist several sample selection methods now available to an auditor for selecting items in the populations.

Question No: 46 (Marks: 5)
Suppose you have been appointed as an auditor of a manufacturing company. You are at the stage of testing the purchase system. According to your knowledge of Auditing Standards, what control objectives would you develop in respect of the Purchase system of the entity?

Question No: 47 (Marks: 5)
Discuss the factors which influence auditor s judgment regarding sample size for tests of control.

Question No: 48 (Marks: 10)
Suppose that your supervisor has asked you to carry out an internal control review of the inventory system of a manufacturing company. What internal control procedures would you examine in respect of the following functions of the inventory system?
1**. Arithmetical Accuracy**
2. Control Accounts
3. Access to Assets and Records

Question No: 49 (Marks: 10)
A company has hired auditors at the year end. Auditors used audit sampling techniques which made them enable to gather audit evidence efficiently. State the objectives auditors might

have defined first to achieve by using sampling techniques and also briefly explain further steps the auditors might undertake to complete the sampling process.